

## **Letters to the Editor: Shock therapy is an unwise choice**

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From Professor Padma Desai.

Sir, In arguing that Russia erred in 'failing to stick to its radical reform programme in 1992', Martin Wolf ('Russia's missed chance', March 18) implicitly makes a false judgment about the wisdom of shock therapy. Among those who hoped for a successful transition, the debate was always over whether shock therapy would, given the political situation, be sustainable once tried. The so-called 'gradualists' predicted it would not be sustainable and hence would undermine the intended stabilisation.

So, a slower road to stabilisation, even if inferior from a technical viewpoint, would be preferable. We know who had the better of the argument: shock therapy was quickly reversed, resulting in the failure that Wolf laments.

I would contend that the frequent claim that stabilisation could not be achieved gradually has also been belied. As Wolf's own chart on the annual percentage change in the goods consumer price index shows dramatically, the 1992 number of 2,590.9 fell steadily to 120.5 in 1995 and is estimated at just 17.8 in 1996: all this without shock therapy but under the eye of the International Monetary Fund, whose hands were closely guarding the purse strings.

The question of whether the cost to the poor would have been less under a faster rate of stabilisation, if politically deliverable, is important.

It is well known that inflation tends to redistribute incomes to profit-earners and hurt the poor, whose wages and assets are not index-linked. But we must not forget that faster stabilisation can often generate higher unemployment rates as well.

My own research based on in-depth analysis of transition in several countries, shows it is too optimistic to assume otherwise. Evidently a fuller analysis of the question is required before reaching a final judgment on this issue.

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